

Message Text

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COMMERCE FOR OIM/OFFICE OF EXPORT DEVELOPMENT

PARIS FOR PARIS AIR SHOW DIRECTOR P.H. DAHMLow
EO 11652: N/A
TAGS: BEXP BGEN SZ EAIR BBAK MASS
SUBJ: CRITICISM OF SWISS AIRCRAFT FIRM (PILATUS)
IN GLOBAL MARKET SURVEY

1. SUMMARY OF PROBLEM AND ACTION REQUESTED.
PILATUS FLUGZEUGWERKE AG, SWITZERLAND'S LEADING AIRCRAFT
MANUFACTURER, BELIEVES THAT ITS REPUTATION AND FINANCIAL
STANDING HAVE BEEN DAMAGED BECAUSE OF DEROGATORY
COMMENTS IN A MAY 1975 GLOBAL MARKET SURVEY ON AVIONICS
AND AVIATION SUPPORT EQUIPMENT. PILATUS AG'S TOP
MANAGEMENT TOLD THE CONGEN COMMERCIAL OFFICER THAT THE
SURVEY'S UNFAVORABLE DESCRIPTION OF THE FIRM, ALTHOUGH
HAVING SOME FACTUAL BASIS IN 1973, IS NO LONGER
JUSTIFIED AND HAS BEEN HARMFUL TO ITS DEALINGS WITH THE
U.S. AEROSPACE INDUSTRY. AS AIRCRAFT MANUFACTURED BY
PILATUS CONTAIN U.S.- MADE COMPONENTS VALUED AT 30 TO 50
PER CENT OF THE FINAL SALES PRICE, CONTINUATION
OF A MISLEADING IMPRESSION OF THE SWISS FIRM'S
REPUTATION COULD HAVE AN ADVERSE IMPACT ON U.S.
EXPORTS.

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ACTION REQUESTED:
WE RECOMMEND THAT, BASED ON THE INFORMATION
AVAILABLE IN THIS TELEGRAM AND FROM THE LATEST
WTDR, THE OFFICE OF EXPORT DEVELOPMENT (A) CONSIDER
ISSUING A REVISED ASSESSMENT OF PILATUS AG. (B)
INFORM THE U.S. AEROSPACE INDUSTRY AND U.S. EXHIBITORS
AT THE PARIS AIR SHOW THAT THE FIRM IS A RECOMMENDED

BUSINESS PARTNER. WE REQUEST THAT THIS ACTION BE TAKEN PRIOR TO THE SHOW'S OPENING ON JUNE 2, 1977.

2. BACKGROUND AND DISCUSSION

(A) THE MAY 1975 GLOBAL MARKET SURVEY ON AVIONICS AND AVIATION SUPPORT EQUIPMENT DESCRIBED (ON PAGE 124) PILATUS AS BEING IN "SERIOUS FINANCIAL DIFFICULTY" AND HAVING A "VERY CLOUDED" FUTURE, PARTICULARLY BECAUSE OF A DETERIORATING SALES OUTLOOK FOR THE FIRM'S "OBSOLETE" MAIN PRODUCT LINE: THE PORTER, A LIGHTWEIGHT AND VERSATILE SHORT TAKE-OFF AND LANDING (STOL) AIRCRAFT. PILATUS AG'S MANAGEMENT REPORTS THAT IN FACT ANNUAL SALES OF THE PORTER INCREASED STEADILY FROM 19 UNITS IN 1973 TO 28 UNITS IN 1976.

(B) THE MANAGEMENT ACKNOWLEDGES THAT IN 1977 THE PORTER'S SALES WILL DECLINE TO ABOUT 20 TO 25 UNITS AND WILL PROBABLY LEVEL OFF THERE AFTER TO ABOUT 15 TO 20 UNITS ANNUALLY. PILATUS ATTRIBUTES THIS TREND TO (1) A REDUCED WORLD NEED FOR ULTRA-STOL AIRCRAFT DUE TO THE ESTABLISHMENT AIR FIELDS WHERE NONE PREVIOUSLY EXISTED (2) IMPROVEMENT IN HELICOPTER PERFORMANCE AND (3) IMPROVED HELICOPTER RELIABILITY.

(C) THE MANAGEMENT BELIEVES THAT THE EXPECTED DECLINE IN SALES OF THE PORTER SHOULD BE COMPLETELY OFFSET BY THE SALES OF A NEW AIRCRAFT BEING DEVELOPED BY PILATUS, THE TURBO TRAINER. BECAUSE IT WILL USE LESS FUEL AND REQUIRE LESS MAINTENANCE, THE COMPANY EXPECTS THAT THIS TURBO PROP AIRCRAFT WILL BE AN UNCLASSIFIED

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ATTRACTIVE ADDITION TO DEVELOPING COUNTRY AIRFORCES SEEKING A REDUCTION IN TRAINING AND OPERATING COSTS. THE MANAGEMENT ESTIMATES THAT IT WILL PRODUCE 3 TURBO TRAINERS MONTHLY IN 1977, INCREASING TO 5 MONTHLY BY 1979. PILATUS EXPECTS TO SELL A TOTAL OF ABOUT 300 UNITS OF THIS AIRCRAFT AND REPORTS THAT, TO DATE, IT HAS ALREADY RECEIVED ORDERS FOR APPROXIMATELY 20 AIRCRAFT FROM TWO NON-EUROPEAN CUSTOMERS.

(B) AS PILATUS IS A MEMBER OF A HOLDING COMPANY (THE OERLIKON-BUEHRLE GROUP), THE AIRCRAFT FIRM DOES NOT NORMALLY RELEASE PROFITS OR TOTAL SALES FIGURES SEPARATELY FROM ITS PARENT COMPANY. PILATUS' MANAGEMENT HAS, HOWEVER, ASSURED US THAT THE FIRM BROKE EVEN IN 1973, MADE SMALL PROFITS IN 1974 AND 1975, AND "SUBSTANTIAL" PROFIT IN 1976. THE FIRM EXPECTS PROFITS TO BE STILL HIGHER IN 1977 AND IN SUBSEQUENT YEARS.

(E) THE FIRM'S TOTAL WORK FORCE HAS RECENTLY BEEN

INCREASED FROM 600 TO 750 EMPLOYEES. MOREOVER, THE RATIO OF AIRCRAFT TO NON-AIRCRAFT ACTIVITIES OF THE FIRM HAS RISEN FROM APPROXIMATELY 50 PER CENT FOR EACH SECTOR IN 1973 TO 70 PER CENT IN FAVOR OF AIRCRAFT PRODUCTION AND MAINTENANCE TODAY. IT IS THE MANAGEMENT'S INTENT TO MAINTAIN PILATUS AS PRIMARILY AN AIRCRAFT MANUFACTURER. (NON-AIRCRAFT ACTIVITIES COMPRISE MOSTLY THE CONSTRUCTION OF MACHINES PARTS AND VARIOUS CIVILIAN AND MILITARY GROUND VEHICLES, SUCH AS FIRE FIGHTING TRAILERS AND SWISS ARMY TRAILERS.)

3. COMMENT:

ALTHOUGH RECOGNIZING THAT AN OPTIMISTIC ASSESSMENT OF THE FIRM'S FUTURE DEPENDS LARGELY ON ITS SUCCESSFUL MARKETING OF A NEW AIRCRAFT (THE TURBO TRAINER), WE REGARD THE MAY 1975 GLOBAL MARKET SURVEY'S DEPICTION OF PILATUS AS UNNECESSARILY BLEAK. PILATUS IS UNCLASSIFIED

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A SIGNIFICANT SUPPLIER OF LIGHT AIRCRAFT TO SWITZERLAND'S DEFENSE AND CIVIL RESCUE SERVICES. (THE ONLY OTHER SWISS AIRCRAFT FIRM OF COMPARABLE SIZE IS THE GOVERNMENT'S FEDERAL AIRCRAFT WORKS WHICH HAS FEWER EMPLOYEES, MOSTLY ASSEMBLES AND MAINTAINS MILITARY AIRCRAFT, AND DOES NO MANUFACTURING.) THE FIRM ALSO HAS AN FAVORABLE BUSINESS AND PROFESSIONAL REPUTATION, AND -- AS A FULLY-OWNED SUBSIDIARY OF THE MACHINE TOOL DIVISION OF OERLIKON-BUEHRLE HOLDING, ONE OF SWITZERLAND'S TOP TEN CORPORATIONS IN TOTAL SALES -- PILATUS HAS A SOLID FINANCIAL BACKING. IN SUM, IT IS OUR ASSESSMENT THAT PILATUS FLUZEUG-WERKE AG WILL CONTINUE TO BE SWITZERLAND'S LEADING AIRCRAFT MANUFACTURER AND SHOULD BE REGARDED AS A RECOMMENDED BUSINESS PARTNER FOR U.S. FIRMS. EMBASSY BERN CONCURS. NELSON

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